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Review of Empirical Studies of Service Quality, Customer Satisfaction, and Loyalty

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ABSTRACT

The purpose of this study is to appraise various concepts and relationship between service quality, customer satisfaction, and customer loyalty to identify issues for future research based on the analysis of literature. The research examines several papers in service quality, customer satisfaction, and loyalty reported in the literature applicable to the banking sector and related fields. The critical review of different literature in service quality, customer satisfaction, and loyalty is intended to obtain linkage between them and highlight the area for future research. The review of various service quality studies revealed that service quality is a multidimensional concept, the outcome and measurements are dependent on the type of service context, need, and so forth. In addition, service quality is a determinant of customer satisfaction, and that customer satisfaction leads to customer loyalty. This paper provides a rich agenda for future research in the subject.

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1. Introduction

Service quality is a multidimensional concept incorporating a number of aspects of both past and present service experience (Titko, Lace, & Kozlovskis, 2013). Despite the extant literature, service quality is a new phenomenon in banking context of Mozambique, and the processes behind service quality are not well understood. Scholars argued that the customers will not be impressed only by the products or services since other banks also provide similar offerings (e.g. Sudhahar, 2010). Improving service quality banks can enhance customer satisfaction and loyalty, and as a consequence, achieve sustainable revenue stream (Titko et al., 2013). Likewise, excellent quality service helps to attract new customer through word-of-mouth recommendation, leads to higher market share, lower operating cost, improves productivity and enhances company's image (Sudhahar, 2010). Many banks across the world understood that apart from introducing innovative products and services, are also focusing on retaining customers rather than acquiring new one all the time (Sudhahar, 2010). The cost of attracting a new customer is much higher than the cost of keeping the existing one (Titko et al., 2013). The longer the customer stays with a firm, the more positive outcome he generates which includes increase in the value of purchase, increase in the number of purchases and the customers' better understanding of the firm and vice-versa and, more positive word-of-mouth (Sudhahar, 2010).

This study aims to investigate the influential factors of service quality in the banking system of Mozambique and its effect on customer satisfaction, subsequently on customer loyalty. In line with this purpose, the literature review is carried out to clarify the underlying concepts in service quality, customer satisfaction, and customer loyalty and to unearth the factors of service quality that have been found to affect customer satisfaction, subsequently on customer loyalty.

2. Service Quality

The conceptualization of service quality has its basis in the physical goods and customer satisfaction literature (Brady & Taylor, 2001). Parasuraman et al. (1985, 1988) have defined service quality as the difference between customers' expectations and the actual performance of the service. Zeithaml (1988) defined "service quality is the consumer's judgment about a product's overall excellence or superiority", whereas Grönroos (1984) has defined service quality as an assessment process between perceived service and expected performance.

Researchers have embraced one of two paradigms, regarding the measurement of service quality. The first is the disconfirmation model – performance-minus-expectations (Parasuraman et al., 1985, 1988). The second is the performance-based model of service quality (Cronin & Taylor, 1992). In disconfirmation paradigm (Grönroos, 1984; Parasuraman et al., 1985, 1988) service quality is judged on the basis of the discrepancy between customers' expectations and perceptions. Lehtinen and Lehtinen (1991) have proposed a three-dimensional perspective of service quality, consisting of interaction quality, physical quality, and corporate quality. From a customer standpoint, they suggested two broad dimensions, i.e. outcome quality and process quality.

Grönroos (1984) identified three dimensions of service quality: functional quality, technical quality, and corporate image. Functional quality represents how the service is delivered; that is, it defines the two-way flow that results between the customers and the service providers. Technical quality refers to the outcome of the service act, or what the customer receives in the service encounter. Technical and functional quality, both are preoccupied with psychological and behavioral aspects (Caruana, 2002). For instance, how the service personnel performs their job, what they say and so forth. The model also recognizes that clients have an image about the company (Grönroos, 1984), which has a quality influence in itself and acts as a strainer of customer perceptions (Kang & James, 2004).

Kang and James (2004) contended that a positive and memorable image is valuable for any service firm due to its influence on customer perceptions of service quality. Thereby, perceived service quality is the outcome of the assessment between customers' expectations and perceptions, taking into account the effect of the company image. Bateson and Hoffman (2011) pointed out that "service quality is an attitude formed by a long-term, overall evaluation of performance". They explained that the manner of service delivery, as well as the outcomes,

affects the perceptions of customers about the quality. Kenyon and Sen (2015) have pointed out physical aspects of the service (e.g., equipment, facilities), and the firm's brand image as the factors that has an effect on customer perceptions about quality.

The disconfirmation paradigm is the foundation for Parasuraman et al. (1985, 1988) SERVQUAL model, which compares customer expectations and perceptions regarding a particular service or industry. SERVQUAL consists of 22-items divided into five dimensions: reliability, responsiveness, assurance, empathy, and tangibility. Several researchers have used and extended the 22-item scale to study service quality in different sectors of the service industry. However, the replication of the model raised many concerns both theoretical and psychometric (Caruana, 2002).

First, the conceptualization of customer expectations was questioned (e.g., Cronin & Taylor, 1992). Scholars argued that expectations change over time, and are measured, mostly before receiving the service (Palmer, 2014). Second, Babakus and Boller (1992), Cronin and Taylor (1992) have found that customer perceptions are an excellent predictor of service quality than the disconfirmation approach. Third, a number of researchers have reported a different number of dimensions (e.g., Carman, 1990; Cronin and Taylor, 1992). As a result, Cronin and Taylor (1992) have developed a performance-based measure (i.e. SERVPERF) alternative to the SERVQUAL measure. The performance-based model captures customers' perceptions of the service quality offered by a specific service provider (Cronin & Taylor, 1992). Therefore, this paper uses SERVQUAL scale to measure service quality, customer satisfaction, and customer loyalty in retail banking context of Mozambique.

3. Customer Satisfaction

Customer satisfaction is "an outcome of purchase and use resulting from buyers' comparison of the rewards and costs of purchase about anticipated consequences" (Churchill & Surprenant, 1982). Oliver (2015) has defined customer satisfaction as "the consumer's fulfillment response. It is a judgment that a product or service feature, or the product or service itself, provide a pleasurable level of consumption-related fulfillment." Zeithaml et al. (2009) posited that customer satisfaction concerns the evaluation of products or services in meeting consumer expectations or needs.

The basis of customer satisfaction lies in the disconfirmation theory (e.g., Oliver, 1980; Westbrook & Reilly, 1983; Parasuraman et al., 1985), regarded as the difference between customer expectation and perceptions (Yi & La, 2004; Bateson & Hoffman, 2011). Consequently, when customer perceptions exceed expectations (i.e. positive disconfirmation), results in customer satisfaction, positive word-of-mouth, and customer retention. Conversely, when actual customer perceptions do not meet expectations (i.e. negative disconfirmation) leads to customer dissatisfaction, negative word-of-mouth or customer defection (Bateson & Hoffman, 2011). Some researchers view customer satisfaction as a function of expectation and disconfirmation. The greater the discrepancy between expectation and actual performance, greater is the degree of disconfirmation and, lower is the customer satisfaction (Boulding et al., 1993; Churchill & Surprenant, 1982; Oliver, 1980).

Two formulations of customer satisfaction dominate in the literature: transaction-specific satisfaction and cumulative satisfaction (Boulding, Karla, Staelin, & Zeithaml, 1993; Ekinci & Dawes, 2009). Zeithaml et al. (2009) contended that the transaction-specific satisfaction and cumulative satisfaction in service firm are all based on customer experiences. Yi and La (2004) said that transient customer satisfaction, as well as cumulative customer satisfaction, may affect post-purchase expectations and repurchase intentions. Therefore, service firms should understand customer perceptions at transient levels to diagnose service quality problems and make instant changes (Zeithaml et al., 2009).

4. Customer Loyalty

Customer loyalty is a critical factor in business survival and development in today’s competitive environment (Chen, 2012). Studies into customer loyalty have focused mainly on tangible goods i.e. brand loyalty, whereas customer loyalty in the service industry was underexposed (Gremler & Brown, 1996). Gremler and Brown (1996) stated that customer loyalty consists of three distinct elements such as behavioral, attitudinal, and cognitive loyalty. Dick and Basu (1994) have suggested an attitudinal theoretical framework that considers customer loyalty as being composed of relative attitude and patronage behavior. In the service context, Gremler and Brown (1996) have defined customer loyalty as “the degree to which a customer exhibits repeat purchasing behavior from a service provider, has a positive attitudinal disposition towards the supplier, and considers using only this provider when a need for this service arises.”

Customer loyalty encompasses repurchase intention, willingness to recommend others a product or service and reluctance to change to another competitor (Cronin and Taylor, 1992). Likewise, it can be manifested in behavior such as repurchase intention or word-of-mouth (Cronin and Taylor, 1992). Chen (2012) contended that customer satisfaction is an essential prerequisite for the emergence of customer loyalty. Oliver (1999) pointed that customer loyalty emerges when a customer shows frequent satisfaction regarding a product or service through repeat patronage, repurchasing, and word-of-mouth behavior. Overall, repurchase intention and word-of-mouth recommendation is a crucial element of customer loyalty and for the successful customer relationship (Berry, 1995; Kotler & Keller, 2012). Thereby, customer loyalty should be examined for the survival of the banking services (Gremler & Brown, 1996).

5. Service quality and Customer satisfaction

Several researchers have discussed the link between service quality and customer satisfaction. Naik, Gantasala, and Prabhakar (2010) found a significant and positive effect of service quality on customer satisfaction in retail units. Shanka (2012) confirmed a positive effect of service quality on customer satisfaction in private banks operating in Ethiopia. Khan and Fasih (2014) found a positive relationship between service quality and customer satisfaction as well as customer loyalty. Muyeed (2012) found that service quality is the main element of customer satisfaction and an essential tool for increasing bank income and market share in Bangladesh.

6. Tangibility

Parasuraman et al. (1991) defined tangibility as “the appearance of physical facilities, equipment, personnel, and communication materials.” In the banking industry, the tangibility dimensions refer to the physical condition of facilities, equipment installed, the appearance of the front-line employees, leaflets, and other materials used to communicate with customers. These are the aspects that customers observe before or after entering into the banking branches and create their first impressions about the banking services (Yavas et al., 1997). If these tangible elements are inadequate, unavailable or in poor conditions, customers may probably feel unhappy with the banking service. Leong, Hew, Lee, and Ooi (2015) found that tangibility has a substantial direct effect on customer satisfaction in the airline industry.

7. Reliability

Reliability refers to "the consistency and dependability of a firm's performance" (Bateson & Hoffman, 2011). Reliability in the banking industry reflects the ability of the banks to provide accurate and trustworthy service which respond to the customer needs; offer products and services at designated time, keep the record correctly, honor its promises, and guarantee that no problem will occur during the delivery of service to customers. Reliability is an essential attribute of the banking services (Johnston, 1997; Zeithaml, Bitner, & Gremler, 2013). A shortfall in reliability may result in customer dissatisfaction (Johnston, 1997). Conversely, excellent banking services deepen the client trustworthiness toward the delivered service (Kenyon & Sen, 2015). George and Kumar (2014), and Leong et al. (2015) have found reliability as a significant predictor of customer satisfaction.

8. Responsiveness

Responsiveness is deemed as a company's commitment, and the willingness of employees to help and deliver prompt service to the customers (Bateson & Hoffman, 2011; Zeithaml et al., 2013). Responsiveness in the banking industry denotes the flexibility or speed of the service and the skill to design the service delivering to meet customer needs (Kenyon & Sen, 2015). This attribute points the importance of attentiveness, readiness, and preparedness of the banks to cope with customer requests, questions, complaints, and problems (Zeithaml et al., 2013). The length of time to which customers have to wait for assistance, a problem resolution, can significantly affect customer perceptions of the service offered (Johnston, 1997). Lee et al. (2000) have found responsiveness as the most important dimension in the "people-based" industries. Leong et al. (2015) confirmed a positive effect of responsiveness on customer satisfaction in the airline industry.

9. Assurance

Assurance encompasses the competence of the service provider, the credibility, and security of the transactions (Bateson & Hoffman, 2011). In the banking industry, the employees should have the knowledge to perform the service, interact with the client in a polite and friendly manner, conveying trust and confidence. Kenyon and Sen (2015) contended that the bank employees should explain the service, its related costs, and benefits, and ensure the security of

customers' transactions and personal information. Shanka (2012) have found a significant effect of assurance on customer satisfaction.

10. Empathy

Zeithaml et al. (2013) have described empathy as the caring and personalized attention that the company gives to their clients. Empathy refers to the banks' ability in putting itself in the customer place. Previous studies have found that empathy component poses a significant and positive influence on customer satisfaction (Leong et al., 2015; Shanka, 2012). The bank personnel should have the ability to understand the feelings, needs, and wants of their clients.

11. Customer Satisfaction and Loyalty

Oliver (1999) pointed that there is an inextricable association between customer satisfaction and customer loyalty. Chen (2012) contended that customer satisfaction is an essential prerequisite for the emergence of customer loyalty. Thus, a higher degree of customer satisfaction influences customer loyalty (Deng et al., 2010). Caruana (2002); Hallowell (1996); Ruyter, Wetzels, and Bloemer (1998) pointed out that customer satisfaction affects customer loyalty in retail banking. Buttle and Burton (2002) stressed that customer satisfaction is the crucial antecedent of client's attitude towards the service firm, and is a core determinant of future customer behavior (Zeithaml et al., 1996). Deng et al. (2010) examining the factors affecting customer satisfaction and loyalty on mobile instant message (MIM) services in China have found that customer satisfaction positively affects customer loyalty.

12. Conclusion

In summary, service quality is a multidimensional construct incorporating a number of attributes. Most of the research have been carried out to examine the relationship between service quality and customer satisfaction, subsequently customer satisfaction and customer loyalty. A lot of research on service quality and its relationship with customer satisfaction and loyalty has been carried out in developed countries. Therefore, no study in this domain was found in Mozambique context. Having identified this gap in the literature, this study attempts to fill up this void.

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